BRITISH COLUMBIA NATURAL PRODUCTS MARKETING POLICY DISCUSSION DOCUMENT

DRAFT POLICY
IN SUPPORT OF THE
NATURAL PRODUCTS MARKETING (BC) ACT

Ministry of Agriculture and Fisheries
Honourable John L. Savage, Minister

November, 1989

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PREFACE

This document marks the beginning of the consultative process between government and industry with a view to developing a revised British Columbia Natural Products Marketing Policy.

The objective of this policy is threefold. First, to provide a mechanism for expressing government policy changes which affect the operation of the marketing board system in this province. Second, to initiate ongoing communication on policy between marketing boards and government. And finally, to provide broad policy guidance to the British Columbia Marketing Board in its supervisory and appeal role.

Marketing boards have served the agricultural industry for the past 50 years. Now, however, changing market demand, the global market place, and a freer trade environment are placing new demands on the marketing board system. Our challenge is to stay competitive and to grow stronger within this new business environment.

Over the next three months, we will be seeking input and comment from the agricultural industry, the processing sector, the distribution and retailing sector and from the public.

The British Columbia Natural Products Marketing Policy is intended to provide the focal point for communicating general government policy directions. And it will assist individual marketing boards in their internal operating policy review to further improve the effectiveness of the marketing board system. We plan to have the policy framework in place by March 31, 1990.

Most marketing boards and commissions have already begun to address the issues contained in this draft policy. The consultative process will provide an opportunity to communicate these initiatives to government and to share them with other marketing boards. The guidelines are intentionally broad so as to recognize the uniqueness of each commodity and to allow each marketing board to respond in a manner which recognizes these differences.

The consultation process and the implementation of policy place major emphasis on the vital contribution of marketing boards in developing our overall agri-food industry. I am confident innovative and effective operating policies will emerge from this process to strengthen the marketing board system and stimulate growth within our dynamic industry.

I look forward to your support and active participation.

John L. Savage

John L. Savage
Minister of Agriculture and Fisheries

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INTRODUCTION

For more than 50 years provincial marketing legislation has provided farmers with special powers to improve the marketing function within their industry. These powers vary among commodity groups, and extend from promotional schemes to supply management schemes with national marketing plans.

Historically, government provided an environment for marketing boards to develop their own policies and operating procedures for implementation of individual marketing schemes. Regulated marketing policies within the province at times emerged without a clearly defined focus.

For the regulated marketing industries to achieve their full potential, it is essential for government to provide a policy framework which will clarify policies it considers important for the intent of the legislation to be effectively implemented. This is especially important in a rapidly changing environment.

- ***The underlying objective of British Columbia's Natural Products Marketing Policy is to enhance the effectiveness of marketing systems within the province, to stimulate growth and strengthen the agri-food sector.***

- ***This discussion document is intended to form the basis for consultation on general policy directions for regulated marketing of natural products. The consultative process will seek input and comment from marketing boards, primary producers operating under marketing board systems, as well as processors, distributors, retailers and consumers.***

The Government of British Columbia solidly supports and recognizes the important role natural products marketing legislation plays in the success of the British Columbia industry. Communicating policy and clarifying regulatory objectives is an important part of government's role as a facilitator to the growth and development of our agriculture, fish and food industries.

The Government of British Columbia recognizes that many marketing boards have already initiated actions to effectively deal with new marketing challenges and/or to make adjustments to their systems in light of public comments. The documentation of these initiatives will provide valuable information to commodity boards which have yet to deal with these issues.

Efficient family enterprises will continue to be a cornerstone of growth for our agricultural industry. Fine tuning of the marketing system within the province will provide future generations with the opportunity to participate and succeed in this important industry.

(In this document "marketing boards" refers to "marketing boards and commissions". This shortened form facilitates the flow of this document.)

Notes:

Discussion Points:

IMPLEMENTATION PROCESS

1. This draft policy will serve as the focal point for consultations and meetings with individual marketing boards to obtain their input and comment.

2. The draft policy will be circulated to the processing, distribution and retail sectors and their associations, as well as directly to producers for input. Input will also be requested from groups representing the consumer interest within the province.

3. The target date for completing the consultative process and finalizing the British Columiba Natural Products Marketing Policy is March 31, 1990.

4. Once the policy is finalized, each marketing board and commission will be expected to undertake its own in-depth review of the policy guidelines and its current operating policies to determine where changes are required to meet the stated policy objectives. Ongoing communication and consultation with the British Columbia Ministry of Agriculture and Fisheries is integral to this process.

5. To fully implement the policy guidelines, it is expected activities will be necessary at two levels:

   a) Development of policies and operating procedures which can be implemented within the framework of existing provincial marketing schemes, and,

   b) Identification of potential amendments to provincial marketing schemes, the Natural Products Marketing (BC) Act, federal - provincial agreements and national marketing legislation.

   Those changes which can be accomplished within the existing regulatory framework are to be incorporated as part of an implementation plan with a target date of March 31, 1991. Because many marketing boards have addressed some of the issues outlined in the policy guidelines, these could be brought forward sooner to provide other marketing boards with useful information to consider when developing their plans.

   Inter-board dialogue as well as vertical communication within each commodity-food group is encouraged.

For those policy changes which require legislative amendment or amendment to the federal - provincial agreements, marketing boards are to provide a plan of requested amendments to the ministry by August 31, 1990. This plan will serve as the preliminary basis for review by working groups which would include representation by industry and the Province, and if appropriate, the Federal government.

6. The main priority throughout the review and implementation process is the development of a cooperative spirit, with industry and government jointly addressing the challenges presented by our changing world environment.

Notes:

Discussion Points:

FOCUSING ON THE NEEDS OF A CHANGING MARKET

Marketing Systems

The marketing systems and their variations which have developed in British Columbia have emerged out of our economic and social environment, our culture, history and attitudes. It is expected, and indeed necessary, that these marketing systems continue to evolve, to be free to adopt beneficial innovations, and to retain elements of systems which are effective.

Although the business institutions vary, marketing systems perform four basic functions:

- the physical exchange or transfer of product between the various components of the system. This includes transportation, storage, grading, processing, packaging and distribution,
- the exchange of title or legal transfer of goods, which is not necessarily synonymous with the physical transfer,
- pricing, which reflects the value of the total product relative to each component of the system,
- information transfer, which provides information to the customer about the range, price, and terms of sale, and feedback to system components of what to produce, buy, and merchandise.

Regardless of the marketing system in place, each marketing board should regularly conduct an internal examination of its efficiency and effectiveness in performing these functions. Furthermore, systems should be in place for evaluating alternatives which could improve individual functions and the overall delivery of goods and services to meet the requirements of customers. The efficiency of our marketing systems should be a key consideration when developing operational policies and guidelines of boards.

◆ ***Marketing boards are to provide a framework for routinely developing innovative improvements to individual marketing functions. And further, marketing boards are to develop and implement procedures for evaluating the efficiency and effectiveness of their marketing system and for routinely obtaining the input of other participants in the commodity/food marketing system.***

- ***To competitively serve a broad range of market requirements, marketing boards are to pursue alternate marketing approaches which complement and improve currently established marketing systems.***

Some marketing alternatives are better suited for a particular commodity sector than others. The following are but a few examples of alternative marketing approaches currently used by different agricultural industries to respond to a range of market needs: direct marketing; forward contracting; cooperative marketing; central selling; auctions; integration of production, packing, processing and marketing functions; marketing agencies.

Designation of Marketing Agencies

A number of marketing boards have authority to designate marketing agencies through which its products shall be packed, stored and marketed. Although producer associations and cooperatives play very important roles in the marketing of agricultural products, diversity of marketing approach may also effectively serve the long term interests of producers and the entire industry.

- ***Marketing boards are encouraged to adopt marketing plans utilizing multiple marketing agencies.***

- ***The British Columbia Marketing Board is to independently review general criteria for monitoring marketing system performance and for designation of marketing agencies.***

Market Coordination and Communication

Effective communication and coordination among producers, marketing agencies, processors, distributors and marketers can enhance producer revenues and the competitive position in the marketplace. Coordination within the marketing system can be improved in a number of important ways: establishing ongoing and effective communication processes and business relationships; coordinated harvest, processing and distribution which reduces waste and increases quality and maintains freshness; coordinated pursuit of production, processing and transportation techniques, which provides unique products to better meet market demand; coordinated product flow with superior service to take full advantage of proximity to markets; timely communication of problems, concerns and opportunities which can influence sales and market returns.

- ***Improving marketing system responsiveness is seen as a key responsibility of marketing boards. This can be accomplished by implementing policies and procedures which encourage the development of effective industry coordination and communication.***

Monitoring Changing Market Needs

Changing lifestyles and eating habits have resulted in significant changes in the demand for certain agricultural products. Wholesomeness, convenience, freshness and uniqueness are examples of trends that are shaping future demand.

- ***Policies which facilitate the monitoring and evaluating of market trends and the effective response of producers in meeting these changing market needs are seen as key responsibilities of marketing boards.***

The further processed markets and niche markets in the chicken and turkey industries are recent examples of significant market opportunities which have emerged from changing market trends.

Strategic Marketing Plans

The business and social environment in which marketing boards operate is complex and changing. Because of the central role marketing boards play in fostering growth and development within individual commodity sectors, their actions are often of major strategic importance to the sector as a whole.

- ***Each marketing board is required to file with the Ministry of Agriculture and Fisheries, by December 31, 1990, a strategic marketing plan which outlines its direction and focus.***

These plans are to be updated on an annual basis, with the expectation that there will be a major review of the plan at least every five years. In developing these plans, it is expected that all components of the commodity food chain will be consulted.

Market Promotion

Promotion is one of the three functions of marketing boards defined within the Natural Products Marketing (BC) Act and can provide a powerful industry tool to enhance the competitive position of producers within the province. Promotion can take a number of forms including generic advertising, trade promotion and consumer educational programs. Marketing promotions have achieved impressive results for British Columbia dairy producers, with the B.C. Dairy Foundation receiving international recognition for its innovative and effective promotional programs.

- ***Marketing boards are encouraged to develop and implement policies for developing and delivering effective promotional programs which will support their strategic marketing plans.***

Notes:

Discussion Points:

FOCUSING ON PUBLIC CONCERNS

Marketing boards were established to address economic disruptions in the agricultural sector and to address producer concerns regarding lack of fairness of the marketing system. The granting of legislative powers to producers raises the issue of balance between the public interest and producer interest. The development of national supply management programs and institutions added a further dimension to the difficult task of balancing public and producer needs in a complex regulatory system.

The British Columbia Marketing Board and the National Farm Products Marketing Council provide the primary means for maintaining accountability of the marketing board system. Despite the accountability factor, the marketing board movement, and in particular supply management boards, continue to be perceived by some as not acting in the public interest. There is even concern within the industry about the ability of marketing board systems to respond effectively to changing market demand.

For the system to endure, it is important to maintain public confidence in the marketing board system.

Overall government policy is designed to reflect the needs of the various components of the marketing system while at the same time addressing the marketing system needs of primary producers.

Public Interest Input

Identification and representation of the public interest in development of marketing board policies can provide an effective means for responding to the needs of other participants in the food system while enhancing the primary sector's long-term economic position.

- ***Marketing boards are to identify areas for involvement and implement procedures for effectively representing the interests of other participants in the food system in their policy development process.***

Quota Policy

Quota policy is an integral and fundamental part of the supply management marketing program. It is the means through which the industry matches supply with demand and the orderly marketing concept is achieved.

The Government of British Columbia supports the concept of supply management as a means to achieve growth and equity within the poultry, egg and milk industries.

Fine tuning of the production quota system is necessary, however, to ensure public concerns are addressed and the full economic potential of the industry is achieved.

Operational objectives regarding quota policy are as follows:

1. The gradual minimization of quota values;

2. Entry of new producers to the industry without total reliance on the purchase of quota at high marginal trading values;

3. Improved efficiency and competitiveness of the industry while maintaining control of industry concentration;

4. Industry growth through displacement of imports and the development of new products, new processes and new markets;

5. Reduced vulnerability of commodity sectors to changing international trade agreements;

6. Increased flexibility within the province;

7. Marketing boards retain the right, without compensation to the quota holders, to withdraw quota or to withhold a portion of quota being transferred.

Quota Values

Quotas of a number of regulated natural products have accumulated high values. The factors influencing quota values are numerous, and include current and projected profitability, anticipated future quota allocations for existing producers, inflationary pressures on quota value, interest rates, tax policy, productivity and availability of under-utilized production capacity. These costs provide a major source of public criticism for the supply management system.

Quota availability relative to demand and commodity pricing is the principal policy area where commodity boards can influence quota values.

- ***Each marketing board which issues quota is to review its quota policy and develop and implement policies which will minimize quota values.***

Allocation and Transfer of Quota

Administrative policies for transfer of quota can play an important role in developing a more flexible quota system.

- ***Marketing boards are to establish policies which will increase flexibility in reassignment of quota and support policies for a minimization in quota values.***

A variety of methods reflecting different circumstances in the various sectors may be considered. Some of the many alternatives that may be considered could include the following: withholding a portion of quota being transferred between producers for separate allocation; allocation of new quota on a basis that it cannot be freely traded but reverts to a quota pool for reassignment; grandfather clauses for existing quota; assignment of quota on an annual, renewable basis.

The portion of quota withheld by marketing boards for reassignment should reflect the degree of interest by potential entrants, balanced with the need to maintain or improve economies of scale of existing producers.

Inter-generational transfers shall be specifically exempt from these policies.

- ***Transfer of quota is not to be tied to production facilities, livestock or the farm unit.***

Entry of New Producers

High quota values provide a significant entry barrier for new producers with modest levels of capitalization. They are also a source of public criticism.

- ***Supply managed marketing boards are to establish quota policies whereby new entrants will be allowed into the industry without having to depend upon quota purchase as the only means for entering the industry.***

To achieve this, mechanisms such as reserving a portion of all quota coming available as a result of transfer within the industry, or additional quota resulting from expanding market demand, may be used for assignment to new producers entering the industry.

Size of Individual Quota Holdings

Pursuit of improved operational efficiencies, which would benefit the industry and consumer, should be encouraged by marketing boards. Improvements resulting from changing technology, improved business management systems and improved biological productivity, need to be reflected in increased maximum quota limits. This can be achieved while maintaining a measure of control on industry concentration and providing a healthy environment for family farming enterprises.

- ***The regulated maximum quota holdings for family farming enterprises need to be regularly reviewed and adjusted to permit adoption of improved operating efficiencies that support a competitive industry.***

Cottage industry farming enterprises can provide an effective means for producing specialized products and services for the consuming public. They provide an opportunity for new farmers to enter the industry with reduced levels of investment, which is particularly important for the younger generation of farmers. Additionally, cottage industry farms can frequently integrate packing, grading or processing functions on their farms, resulting in self-contained units suitable for regions of the province where separate commercial scale production and processing is not viable or in which the existing structure is not fully responsive to market needs.

- ***Marketing boards are to develop policies and initiatives to stimulate cottage industry production and marketing where a potential market demand exists and where there is an interest by potential or existing producers.***

Quota Permit, Secondary Quota and Special Products Quota

New products, processes and markets provide opportunities for growth within the supply managed industries. Principal constraints to these opportunities are restrictions on total provincial quota and commodity pricing policy.

Improving technological and biological efficiencies have historically provided intensive agriculture with an increasing productive capacity. As a result, individual producers often have under-used productive capacity.

Separate quota and pricing systems can be used to stimulate growth within the commodity sectors and provide additional revenue for producers in areas where potential growth opportunities from new products, new processes and new markets are not being exploited by existing quota and pricing policies.

- ***Marketing boards are to pursue policies for establishing new classes of quota or production permits to take advantage of opportunities from new products, new processes and new markets that are unavailable with existing quota and pricing policies.***

National Marketing Plans

The National Marketing Agencies occasionally have difficulty responding to changing market and economic conditions. Flexible policies are required so that the needs of the market place can be met in a cost effective and responsive manner.

The national marketing plans should not unduly restrict the British Columbia industry from achieving its economic potential or restrict its ability to pursue new products, new processes and new markets which it can competitively service.

- ***Marketing boards are to pursue and encourage implementation of national quota allocation policies and other measures which reflect the province's competitive ability to service the needs of a dynamic market place.***

Pricing Systems

The means by which prices are established for regulated commodities within the province vary considerably. Market conditions and regulatory powers play important roles in determining pricing mechanisms used by individual commodity boards.

Government objectives for regulated pricing systems are as follows:

1. To obtain an effective balance between producer and public interests based on sound market principles;

2. To meet a broad range of market requirements and opportunities through flexibility;

3. To develop and maintain responsive pricing mechanisms which reward excellence of quality and service to meet individual market needs and which reflect true market value of products and services;

4. To modify formula pricing systems of supply managed commodities to reduce pressure on quota values, to increase price impact considerations on consumption and ability to develop new markets and products; and to provide a means to better reflect the producers' comparative advantage when dealing with national agencies on quota allocation issues;

5. To provide an environment for the industry to adjust to the global forces which are shaping the way we do business.

Based on these objectives:

- ***Marketing boards are to evaluate their individual pricing policies relative to the ministry's defined policy objectives and to undertake a process to ensure these objectives are being met.***

- ***Marketing boards currently using cost of production approaches for establishing commodity prices are to pursue methods for improving the flexibility and market responsiveness of these formulas.***

- ***Marketing boards are to ensure that pricing formulas do not incorporate quota values, nor contribute to increases in quota values.***

- ***The British Columbia Marketing Board is to undertake an independent analysis of options for developing more precise measurement of pricing formula performance and for improving the pricing formulas so that they are both market and cost driven and systematically take into account the effects of prices on consumption and new market opportunities.***

Anyone wanting to comment on the British Columbia Natural Products Marketing Policy Discussion Document is invited to direct comments to:

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